Bodycote

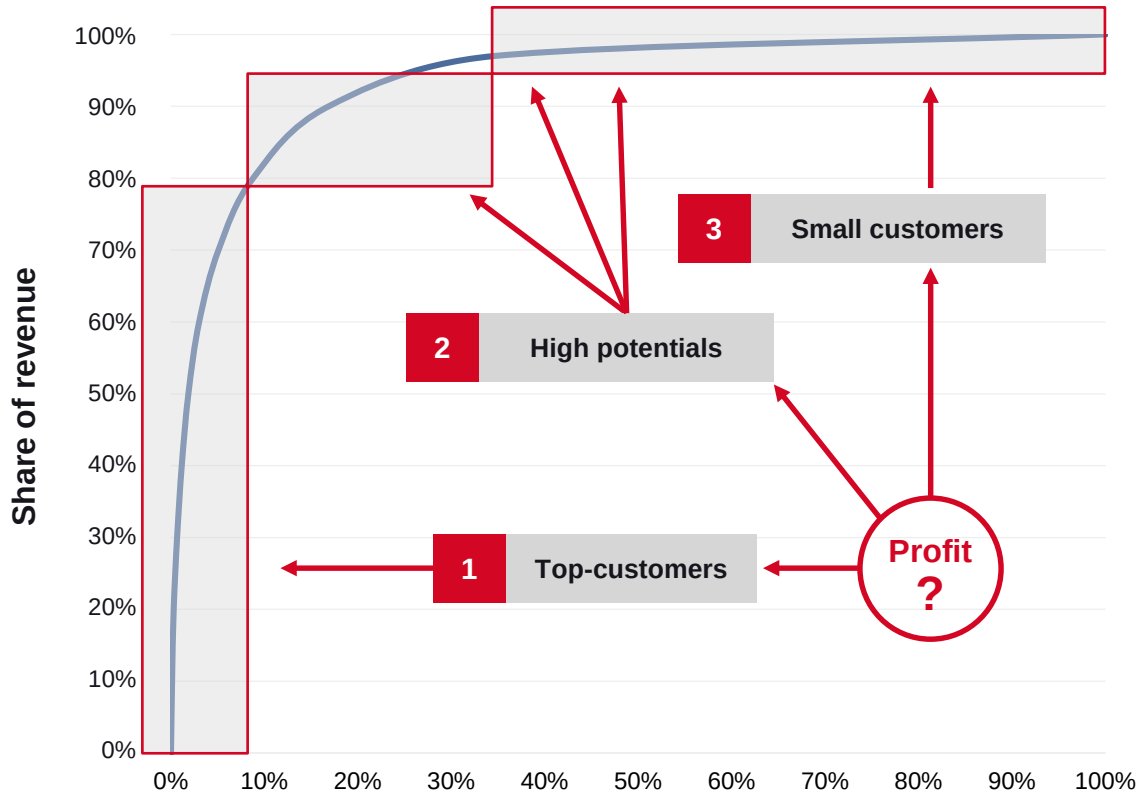
The Bodycote Margin Model

Improving the mix

The big unknown

Which customers are profitable?

Share of revenue vs. number of customers



Example plant:

- In this plant, top customers represent >85% of total turnover – the distribution varies by plant
- High potentials are customers with higher margin potential
- Small customers are defined as those with less than €10,000 annual turnover

Digging deeper into the product mix…

…we discover even more margin differences

A typical Classical Heat Treatment division of Bodycote:

120,000 products

- Over 12,000 customers
- On average 10 products per customer

Efficiency

- Identical parts can be treated at different cost
- Factors such as efficiencies and utilisation matter

Pricing

- The same product has different value to different customers
- Selecting the customers that value our services is key

Understanding the profitability

Product: Gearbox component

Market: Automotive

Treatment: Hardening and Tempering

Pricing: Identical in both plants

Plant 1

Margin: -5%

?

Plant 2

Margin: +25%

Understanding the profitability

Key questions

- Where do we earn our profits?
- Where do we have potential for growth?
- How do we do our pricing?

A systematic approach for mix and margin improvement is needed

Bodycote Margin Model

Improving the profitability

Driving the Bodycote margin process

Define

- Alignment of cost data with production processes

Calculate

- Process data
- Identify and adjust for inefficiencies in the existing process
- Calculate the margin scenarios and create margin analysis charts

Review

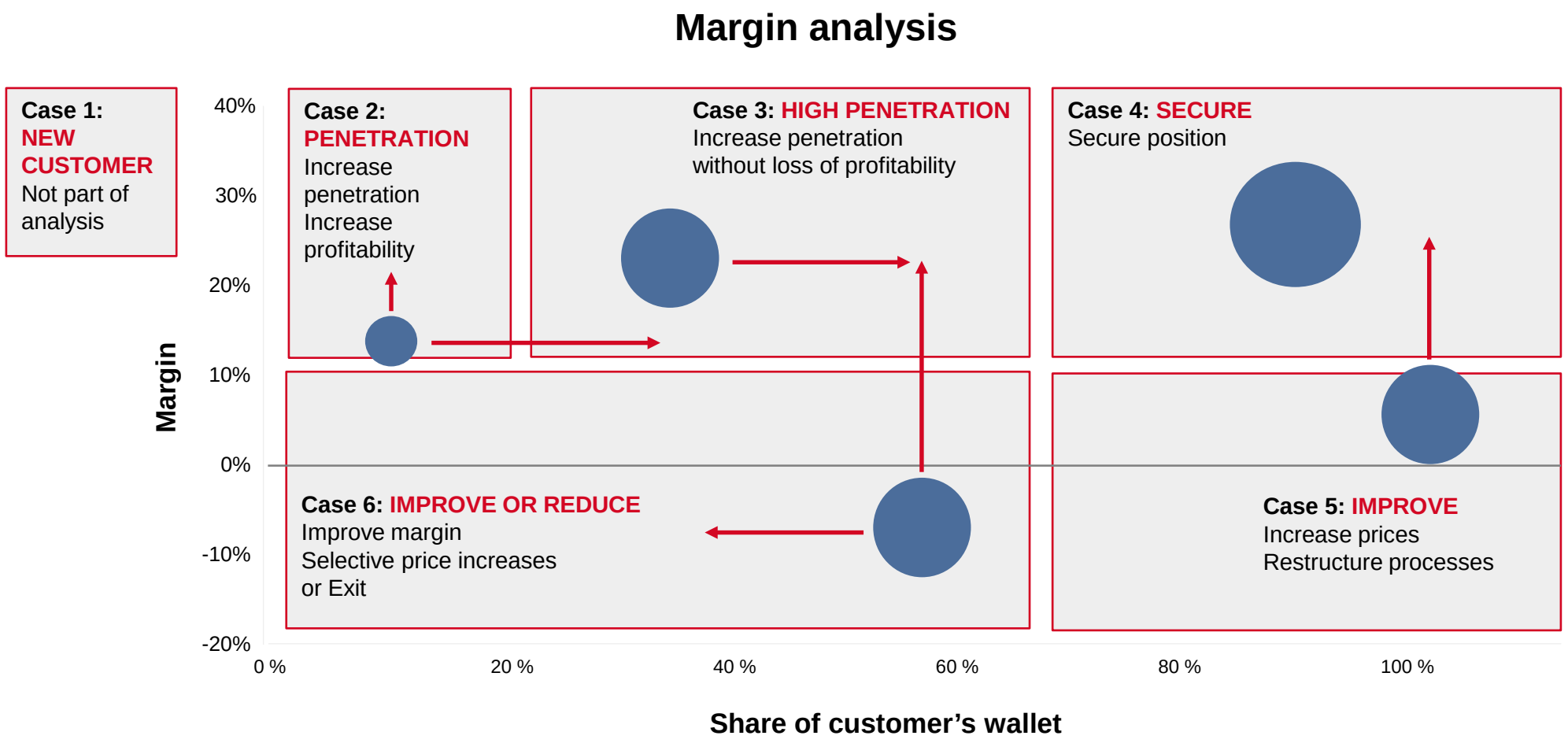
- Analyse share of customer's wallet
- Review profitability at customer / product / component level
- Create inefficiency analysis report and initial proposal for action plan

Action

- Challenge the results
- Action plan: 'Improving the Business'
- Transfer from project team to line management

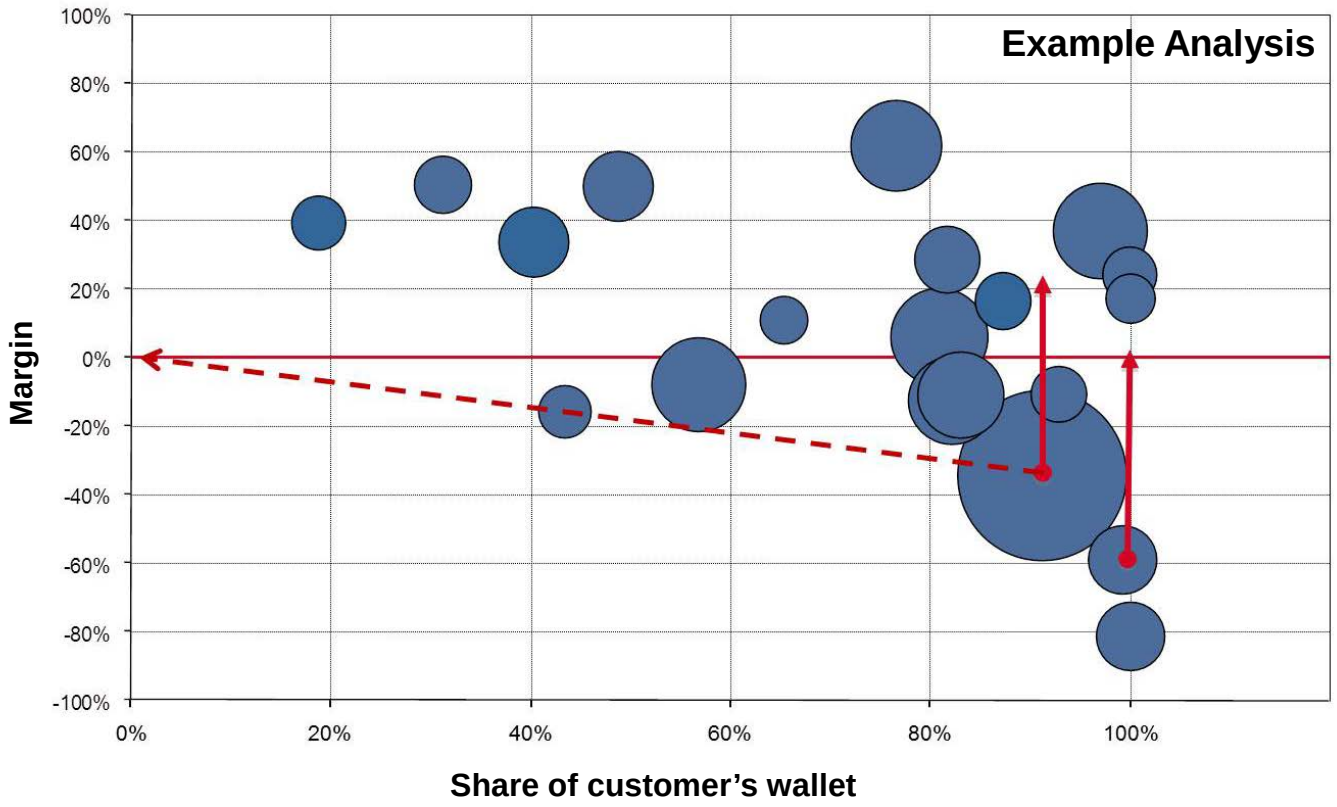
Improving the profitability

Bodycote margin model



Improving the profitability

The result: Up or Out…



Up

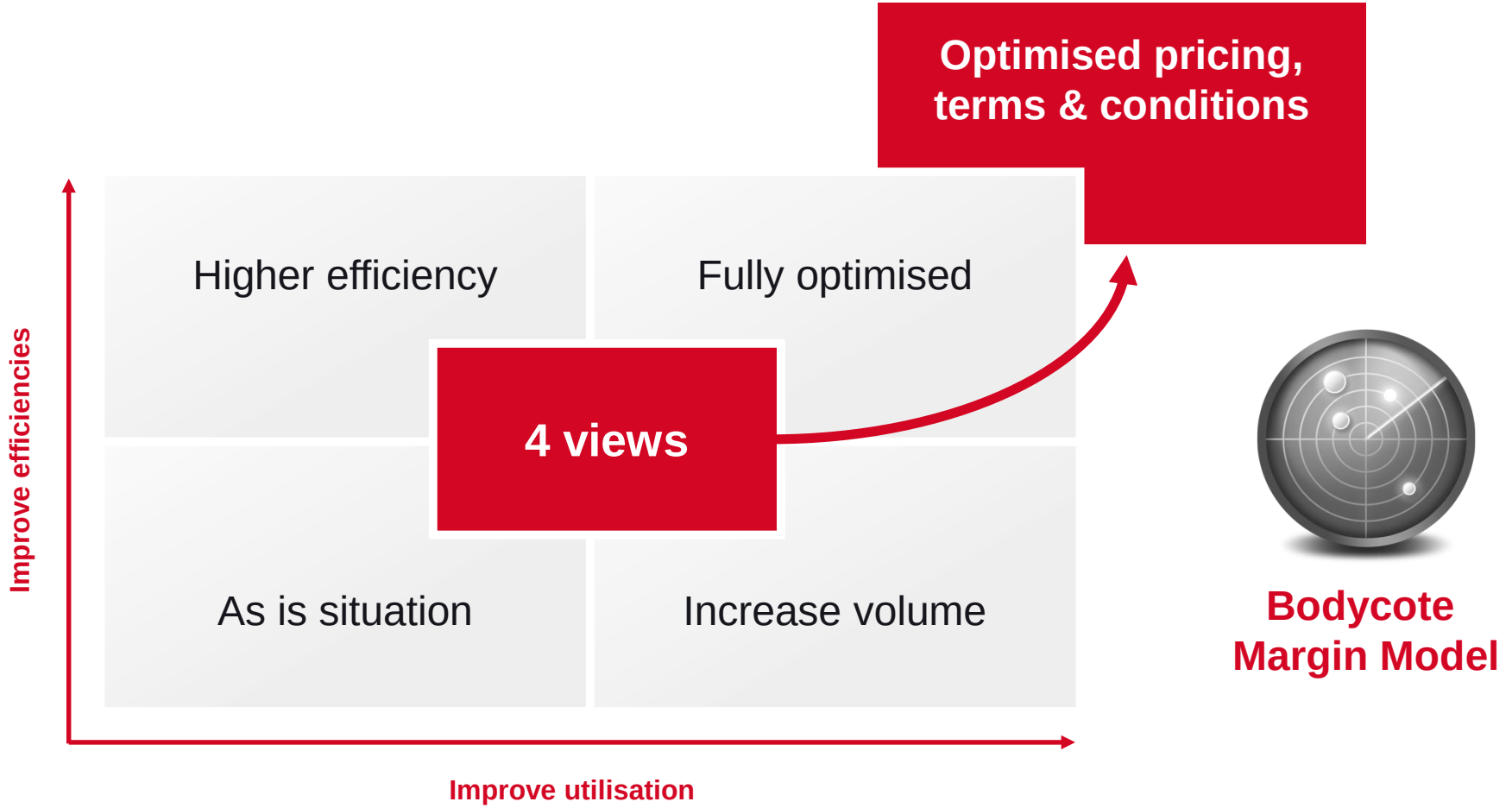
or

Out

Size of circle
=
Revenue volume

Improving the profitability

Mapping the different ways to improve profit



Bodycote Margin Model

There is more than one margin dimension when comparing processes between plants

Bodycote

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Plant 1

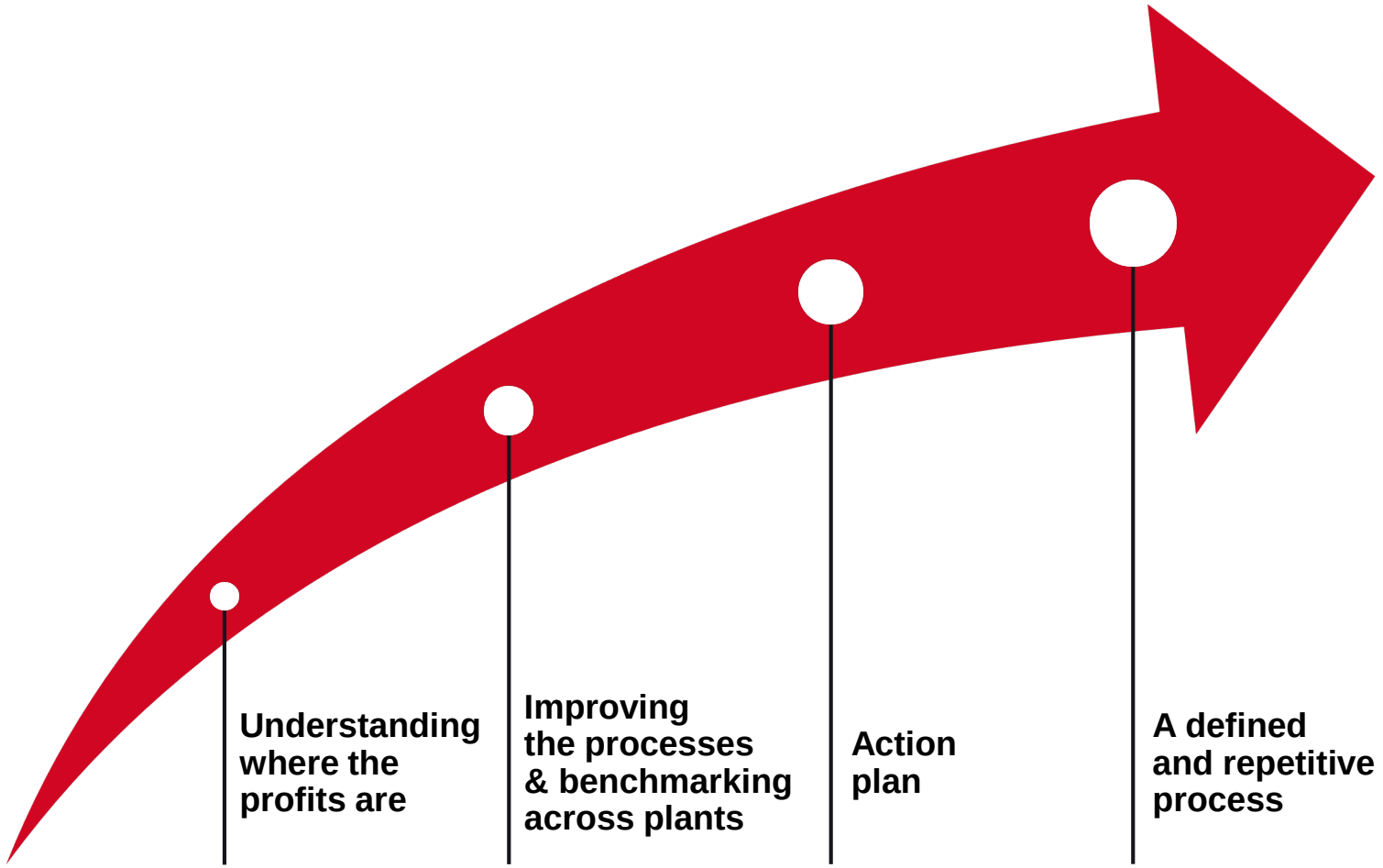
- Utilisation and load density are low
- Standard heat treatment process
- Bad furnace management
- Flows not optimised
- **Poor profitability**

Plant 2

- Utilisation and load density are optimized
- Customised heat treatment process
- Energy management in place
- Lean manufacturing in place
- **Excellent profitability**

The Bodycote margin model

Why is it so successful?



Robust and long term portfolio profitability

CAPITAL MARKETS DAY

2019